

City of Galesburg
Kalamazoo County, Michigan
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**
Year ended June 30, 2008

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INDEPENDENT AUDITORS' REPORT

City Council
City of Galesburg, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Galesburg, Michigan, as of June 30, 2008, and for the year then ended, which collectively comprise the City of Galesburg, Michigan's basic financial statements, as listed in the contents. These financial statements are the responsibility of the City of Galesburg, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Galesburg, Michigan, as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The budgetary comparison information, as listed in the contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The City of Galesburg, Michigan has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Galesburg, Michigan's basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sigfried Crandall P.C.

November 25, 2008

BASIC FINANCIAL STATEMENTS

City of Galesburg
STATEMENT OF NET ASSETS
June 30, 2008

	Primary government			Component unit
	Governmental activities	Business-type activities	Totals	
ASSETS				
Current assets:				
Cash	\$ 425,231	\$ 1,327,637	\$ 1,752,868	\$ 5,568
Receivables, net	108,582	113,130	221,712	-
Internal balances	14,911	(14,911)	-	-
Total current assets	548,724	1,425,856	1,974,580	5,568
Noncurrent assets:				
Receivables, net	14,676	4,828	19,504	-
Capital assets not being depreciated - land	122,280	37,216	159,496	-
Capital assets, net of accumulated depreciation	730,914	3,165,799	3,896,713	-
Total noncurrent assets	867,870	3,207,843	4,075,713	-
Total assets	1,416,594	4,633,699	6,050,293	5,568
LIABILITIES				
Current liabilities:				
Accounts payable	15,138	162,515	177,653	-
Current maturities of long-term liabilities	34,661	115,000	149,661	-
Total current liabilities	49,799	277,515	327,314	-
Noncurrent liabilities:				
Compensated absences	44,360	-	44,360	-
Bonds and notes payable	71,842	2,228,704	2,300,546	-
Total noncurrent liabilities	116,202	2,228,704	2,344,906	-
Total liabilities	166,001	2,506,219	2,672,220	-
NET ASSETS				
Invested in capital assets, net of related debt	746,691	859,311	1,606,002	-
Restricted	272,353	-	272,353	-
Unrestricted	231,549	1,268,169	1,499,718	5,568
Total net assets	\$ 1,250,593	\$ 2,127,480	\$ 3,378,073	\$ 5,568

See notes to the financial statements

City of Galesburg
STATEMENT OF ACTIVITIES
Year ended June 30, 2008

Functions/Programs	Program revenues		
	<u>Expenses</u>	<u>Charges for services</u>	<u>Operating grants and contributions</u>
Primary government			
Governmental activities:			
Legislative	\$ 8,666	\$ -	\$ -
General government	137,773	22,731	410
Public safety	269,385	30,336	122,049
Public works	171,235	1,616	-
Community and economic development	2,485	3,504	-
Culture and recreation	88,368	24,782	6,522
Interest on long-term debt	3,968	-	-
Total governmental activities	<u>681,880</u>	<u>82,969</u>	<u>128,981</u>
Business-type activities:			
Sewer	143,239	127,055	-
Water	159,363	263,686	-
Total business-type activities	<u>302,602</u>	<u>390,741</u>	<u>-</u>
Total primary government	<u>\$ 984,482</u>	<u>\$ 473,710</u>	<u>\$ 128,981</u>
Component unit - Downtown Development Authority	<u>\$ 379</u>	<u>\$ -</u>	<u>\$ 5,947</u>

General revenues:

Property taxes
State shared revenues
Investment income
Franchise fees

Total general revenue

Change in net assets

Net assets - beginning

Net assets - ending

Net (expenses) revenues and changes in net assets

Primary government

<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>	<u>Component unit</u>
\$ (8,666)		\$ (8,666)	
(114,632)		(114,632)	
(117,000)		(117,000)	
(169,619)		(169,619)	
1,019		1,019	
(57,064)		(57,064)	
(3,968)		(3,968)	
<u>(469,930)</u>		<u>(469,930)</u>	
	\$ (16,184)	(16,184)	
	<u>104,323</u>	<u>104,323</u>	
	<u>88,139</u>	<u>88,139</u>	
<u>(469,930)</u>	<u>88,139</u>	<u>(381,791)</u>	
			\$ <u>5,568</u>
278,614	-	278,614	-
185,387	-	185,387	-
5,729	48,491	54,220	-
<u>11,882</u>	<u>-</u>	<u>11,882</u>	<u>-</u>
<u>481,612</u>	<u>48,491</u>	<u>530,103</u>	<u>-</u>
11,682	136,630	148,312	5,568
<u>1,238,911</u>	<u>1,990,850</u>	<u>3,229,761</u>	<u>-</u>
<u>\$ 1,250,593</u>	<u>\$ 2,127,480</u>	<u>\$ 3,378,073</u>	<u>\$ 5,568</u>

See notes to the financial statements

City of Galesburg
BALANCE SHEET - governmental funds
June 30, 2008

	<u>General</u>	<u>Major Street</u>	<u>Nonmajor governmental funds</u>	<u>Total governmental funds</u>
ASSETS				
Cash	\$ 56,364	\$ 130,648	\$ 214,367	\$ 401,379
Receivables, net	85,973	27,340	9,945	123,258
Due from other funds	15,518	1,526	11,183	28,227
Total assets	<u>\$ 157,855</u>	<u>\$ 159,514</u>	<u>\$ 235,495</u>	<u>\$ 552,864</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 12,106	\$ 1,567	\$ 695	\$ 14,368
Due to other funds	31,279	1,815	594	33,688
Deferred revenue	-	20,335	5,365	25,700
Total liabilities	<u>43,385</u>	<u>23,717</u>	<u>6,654</u>	<u>73,756</u>
Fund balances:				
Reserved for fire maintenance	1,950	-	-	1,950
Unreserved, undesignated	112,520	135,797	-	248,317
Unreserved, reported in nonmajor:				
Special revenue funds	-	-	165,684	165,684
Debt service fund	-	-	63,157	63,157
Total fund balances	<u>114,470</u>	<u>135,797</u>	<u>228,841</u>	<u>479,108</u>
Total liabilities and fund balances	<u>\$ 157,855</u>	<u>\$ 159,514</u>	<u>\$ 235,495</u>	<u>\$ 552,864</u>

Total fund balances - total *governmental activities* \$ 479,108

Amounts reported for *governmental activities* in the statement of net assets (page 5)
are different because:

Capital assets (exclusive of \$48,551 of the internal service fund) used in *governmental activities*
are not financial resources and, therefore, are not reported in the governmental funds. 804,643

Compensated absences are not due and payable in the current period and, therefore, are not
reported in the governmental funds. (44,360)

Long-term bonds and notes payable are not due and payable in the current period and, therefore,
are not reported in the governmental funds. (106,503)

Other long-term assets are not available to pay for current-period expenditures and, therefore,
are not reported in the governmental funds. 25,700

A portion of the net assets (including capital assets of \$48,551) and liabilities of the internal
service fund are included in the *governmental activities* in the statement of net assets. 92,005

Net assets of *governmental activities* \$ 1,250,593

See notes to the financial statements

City of Galesburg

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND

BALANCES - governmental funds

Year ended June 30, 2008

	<u>General</u>	<u>Major Street</u>	<u>Nonmajor governmental funds</u>	<u>Total governmental funds</u>
REVENUES				
Property taxes	\$ 267,098	\$ -	\$ 27,644	\$ 294,742
Licenses and permits	3,509	-	-	3,509
State grants	193,202	88,593	27,948	309,743
Intergovernmental	16,500	-	-	16,500
Charges for services	17,292	-	-	17,292
Fines and forfeitures	38,618	-	-	38,618
Interest and rentals	4,088	1,129	3,316	8,533
Other	12,155	935	7,357	20,447
	<u>552,462</u>	<u>90,657</u>	<u>66,265</u>	<u>709,384</u>
Total revenues				
EXPENDITURES				
Legislative	8,666	-	-	8,666
General government	136,908	-	-	136,908
Public safety	246,331	-	-	246,331
Public works	48,011	61,080	46,428	155,519
Community and economic development	2,485	-	-	2,485
Culture and recreation	81,561	-	2,554	84,115
Capital outlay	31,695	-	-	31,695
Debt service:				
Principal	6,529	-	28,467	34,996
Interest and fiscal charges	-	-	3,968	3,968
	<u>562,186</u>	<u>61,080</u>	<u>81,417</u>	<u>704,683</u>
Total expenditures				
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(9,724)</u>	<u>29,577</u>	<u>(15,152)</u>	<u>4,701</u>
OTHER FINANCING SOURCES (USES)				
Loan proceeds	24,113	-	-	24,113
Transfers in	183	-	22,516	22,699
Transfers out	-	(22,516)	(183)	(22,699)
	<u>24,296</u>	<u>(22,516)</u>	<u>22,333</u>	<u>24,113</u>
Total other financing sources (uses)				
NET CHANGE IN FUND BALANCES	14,572	7,061	7,181	28,814
FUND BALANCES - BEGINNING	<u>99,898</u>	<u>128,736</u>	<u>221,660</u>	<u>450,294</u>
FUND BALANCES - ENDING	<u>\$ 114,470</u>	<u>\$ 135,797</u>	<u>\$ 228,841</u>	<u>\$ 479,108</u>

See notes to the financial statements

City of Galesburg
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - governmental funds (Continued)
Year ended June 30, 2008

	<u>Total governmental funds</u>
Net change in fund balances - total governmental funds	\$ 28,814
Amounts reported for governmental activities in the statement of activities (page 6) are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation (\$53,680) exceeded capital outlays (\$39,103) in the current period.	(14,577)
The issuance of long-term debt provides current financial resources in the governmental funds but does not increase net assets.	(24,113)
The repayment of principal on such debt consumes the current financial resources of the governmental funds but does not have an effect on net assets.	34,996
Assessment revenues deferred in the funds are reported as earned in the current year on the statement of activities.	(3,668)
Compensated absences reported in the statement of activities do not require the use of current financial resources, and, therefore, are not reported as expenditures in governmental funds.	(3,863)
A portion of the net expenses of the internal service fund are reported with governmental activities.	<u>(5,907)</u>
Change in net assets of governmental activities	<u>\$ 11,682</u>

See notes to the financial statements

City of Galesburg
STATEMENT OF NET ASSETS - proprietary funds
June 30, 2008

	Business-type activities			Governmental activities
	Enterprise funds			Internal service
	Sewer	Water	Totals	
ASSETS				
Current assets:				
Cash	\$ 632,067	\$ 695,570	\$1,327,637	\$ 23,852
Receivables, net	37,951	75,179	113,130	-
Due from other funds	26,532	494	27,026	-
Total current assets	696,550	771,243	1,467,793	23,852
Noncurrent assets:				
Receivables	3,599	1,229	4,828	-
Capital assets not being depreciated - land	36,216	1,000	37,216	-
Capital assets, net of accumulated depreciation	331,461	2,834,338	3,165,799	48,551
Total noncurrent assets	371,276	2,836,567	3,207,843	48,551
Total assets	1,067,826	3,607,810	4,675,636	72,403
LIABILITIES				
Current liabilities:				
Accounts payable	59,497	103,018	162,515	770
Due to other funds	6,364	14,553	20,917	648
Bonds payable - current	7,500	107,500	115,000	-
Total current liabilities	73,361	225,071	298,432	1,418
Noncurrent liabilities - bonds payable	30,000	2,198,704	2,228,704	-
Total liabilities	103,361	2,423,775	2,527,136	1,418
NET ASSETS				
Invested in capital assets, net of related debt	330,177	529,134	859,311	48,551
Unrestricted	634,288	654,901	1,289,189	22,434
Total net assets	\$ 964,465	\$ 1,184,035	2,148,500	\$ 70,985

Amounts reported for business-type activities in the statement of net assets are different because:

Adjustment to reflect the consolidation of the portion of internal service fund activities related to enterprise funds. (21,020)

Net assets of business-type activities \$2,127,480

See notes to the financial statements

City of Galesburg
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
proprietary funds
Year ended June 30, 2008

	Business-type activities			Governmental activities
	Enterprise funds			Internal service
	Sewer	Water	Totals	
OPERATING REVENUES				
Charges for services	\$ 122,102	\$ 261,693	\$ 383,795	\$ 41,986
Other	4,510	1,993	6,503	-
Total operating revenues	126,612	263,686	390,298	41,986
OPERATING EXPENSES				
Personnel costs	30,650	58,093	88,743	26,942
Operating supplies	585	41,096	41,681	11,674
Treatment charges	77,642	-	77,642	-
Maintenance and repairs	11,097	17,116	28,213	2,091
Utilities	317	9,134	9,451	-
Equipment rental	1,378	10,600	11,978	-
Depreciation	18,876	20,429	39,305	9,544
Total operating expenses	140,545	156,468	297,013	50,251
OPERATING INCOME (LOSS)	(13,933)	107,218	93,285	(8,265)
NONOPERATING REVENUES (EXPENSES)				
Interest revenue	25,966	22,968	48,934	-
Interest expense	(2,423)	(808)	(3,231)	-
Total nonoperating revenues	23,543	22,160	45,703	-
CHANGE IN NET ASSETS	9,610	129,378	138,988	(8,265)
TOTAL NET ASSETS - BEGINNING	954,855	1,054,657	2,009,512	79,250
TOTAL NET ASSETS - ENDING	\$ 964,465	\$ 1,184,035	\$ 2,148,500	\$ 70,985
Change in net assets			\$ 138,988	
Amounts reported for business-type activities in the statement of activities are different because:				
Adjustment to reflect the consolidation of the portion of internal service fund activities related to enterprise funds.			(2,358)	
Change in net assets of business-type activities			\$ 136,630	

See notes to the financial statements

City of Galesburg
STATEMENT OF CASH FLOWS - proprietary funds
Year ended June 30, 2008

	Business-type activities			Governmental activities
	Enterprise funds			Internal service
	Sewer	Water	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 129,410	\$ 246,139	\$ 375,549	\$ -
Receipts from interfund services provided	-	-	-	41,986
Payments to suppliers	(45,516)	(61,952)	(107,468)	(14,322)
Payments to employees	(27,595)	(46,993)	(74,588)	(26,854)
Payments for interfund services used	(1,910)	(11,094)	(13,004)	-
Net cash provided by operating activities	54,389	126,100	180,489	810
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Repayment of short-term advances	25,000	-	25,000	-
Repayment of long-term advances	6,000	-	6,000	-
Net cash provided by noncapital financing activities	31,000	-	31,000	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Collections of customer assessments	2,490	3,682	6,172	-
Decrease in accounts payable	-	(199,273)	(199,273)	-
Proceeds from long-term debt	-	203,260	203,260	-
Principal paid on capital debt	(7,500)	(102,500)	(110,000)	-
Interest (including capitalized interest of \$48,853) paid on capital debt	(2,423)	(49,661)	(52,084)	-
Net cash used in capital and related financing activities	(7,433)	(144,492)	(151,925)	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	18,066	21,868	39,934	-
NET INCREASE (DECREASE) IN CASH	96,022	3,476	99,498	810
CASH - BEGINNING	536,045	692,094	1,228,139	23,042
CASH - ENDING	<u>\$ 632,067</u>	<u>\$ 695,570</u>	<u>\$ 1,327,637</u>	<u>\$ 23,852</u>
Supplemental information:				
Acquisition of capital assets	\$ -	\$ (133,079)	\$ (133,079)	\$ -
Increase in accounts payable	-	83,803	83,803	-
Capitalized interest	-	49,276	49,276	-
Net cash used	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See notes to the financial statements

STATEMENT OF CASH FLOWS - proprietary funds (Continued)

Year ended June 30, 2008

	<u>Business-type activities</u>			<u>Governmental activities</u>
	<u>Enterprise funds</u>			<u>Internal service</u>
	<u>Sewer</u>	<u>Water</u>	<u>Totals</u>	
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ (13,933)	\$ 107,218	\$ 93,285	\$ (8,265)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	18,876	20,429	39,305	9,544
Changes in assets and liabilities:				
Accounts receivable	2,798	(17,547)	(14,749)	-
Due from other funds	(532)	(494)	(1,026)	-
Due to other funds	3,055	11,100	14,155	88
Accounts payable	44,125	5,394	49,519	(557)
Net cash provided by operating activities	<u>\$ 54,389</u>	<u>\$ 126,100</u>	<u>\$ 180,489</u>	<u>\$ 810</u>

See notes to the financial statements

City of Galesburg
STATEMENT OF FIDUCIARY NET ASSETS - Agency Fund
June 30, 2008

ASSETS

Cash	\$ 4,014
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LIABILITIES

Due to other governmental units	\$ 4,014
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See notes to the financial statements

City of Galesburg
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the City of Galesburg, Michigan (the City), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies.

a) Reporting entity:

The accompanying financial statements present the government and its component unit, entities for which the government is considered to be financially accountable. When the component unit commences activity, its financial information will be reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the government.

Discretely-presented component unit - Downtown Development Authority:

This unit is legally separate from the City. Separate financial statements of the component unit will not be issued, as management believes these general purpose financial statements, including disclosures, will contain complete information so as to constitute a fair presentation of the component unit. The City Council approved a resolution to establish a Downtown Development District (DDA) in September 2006, and subsequently approved the DDA board appointments and meeting schedule. The City Council also approves the DDA annual budgets.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the City. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

City of Galesburg
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation:

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City generally considers property tax revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due. State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the government. Only the portion of special assessment receivable due within the current year is considered susceptible to accrual as revenue of the current period.

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The Major Street Fund accounts for state gas and weight tax revenues that are restricted for expenditures related to maintaining and improving the City's major streets.

The City reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the City's sewage collection systems.

The Water Fund accounts for the activities of the City's water distribution system.

Additionally, the government reports the following fund types:

The internal service fund that accounts for vehicle and equipment management services provided to other departments of the City on a cost-reimbursement basis.

The agency fund accounts for the collection and disbursements of amounts due to other units and individuals.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector standards.

City of Galesburg
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted as they are needed.

d) Assets, liabilities, and net assets or equity:

i) *Bank deposits* - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Pooled interest income is proportionately allocated to all funds.

ii) *Receivables* - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." No allowance for uncollectible accounts has been recorded as the City considers all receivables to be fully collectible.

iii) *Prepaid items* - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

iv) *Capital assets* - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	15 - 60 years
Equipment	3 - 5 years
Vehicles	3 - 5 years
Sewer and water systems	50 years
Roads	10 - 30 years
Library collection	20 years

City of Galesburg
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets, liabilities, and net assets or equity (continued):

v) Compensated absences (vacation and sick leave) - It is the government's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability for unpaid accumulated vacation and sick leave has been recorded for the portion due to employees upon separation from service with the City. Vested compensated absences are accrued when earned in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

vi) Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

vii) Property tax revenue recognition - Property taxes are levied as of July 1 on property values assessed as of December 31 of the prior year. The billings are due on or before August 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the City. Property tax revenue is recognized in the year for which taxes have been levied and become available. The City levy date is July 1, and, accordingly, the total levy is recognized as revenue in the current year.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, activity, and line-item. The legal level of budgetary control adopted by the governing body is the activity level. All annual appropriations lapse at the end of the fiscal year.

The following schedule sets forth significant budget variations:

<u>Fund</u>	<u>Function</u>	<u>Activity</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
General	General government	Elections	\$ 1,618	\$ 4,288	\$ 2,670
		Administration	63,564	70,317	6,753
		City hall	19,630	23,244	3,614
	Public safety	Fire	38,507	47,090	8,583
	Capital outlay	Capital outlay	8,068	31,695	23,627
Major Street	Public works	Winter maintenance	8,489	13,786	5,297
Local Street	Public works	Winter maintenance	42,525	46,429	3,904
Public Safety	Debt service	Principal	-	18,467	18,467
	Debt service	Interest and fiscal charges	-	1,993	1,993
Library	Culture and recreation	Culture and recreation	-	2,554	2,554

City of Galesburg
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - DEPOSITS:

At June 30, 2008, cash as presented in the accompanying financial statements, consists of the following:

	<i>Govern- mental activities</i>	<i>Business- type activities</i>	<i>Fiduciary</i>	<i>Total primary government</i>	<i>Total component unit</i>
Deposits	\$ 425,161	\$ 1,327,574	\$ 4,014	\$ 1,756,749	\$ 5,568
Cash on hand	<u>70</u>	<u>63</u>	<u>-</u>	<u>133</u>	<u>-</u>
Total cash	<u>\$ 425,231</u>	<u>\$ 1,327,637</u>	<u>\$ 4,014</u>	<u>\$ 1,756,882</u>	<u>\$ 5,568</u>

Deposits with financial institutions - State statutes and the City's investment policy authorize the City to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The City's deposits are in accordance with statutory authority. Custodial credit risk is the risk that, in the event of the failure of a financial institution, the City will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. As of June 30, 2008, \$1,161,407 of the City's bank balances of \$1,774,289 was exposed to custodial credit risk because it was uninsured. The City believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the City evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

NOTE 4 - RECEIVABLES:

Receivables as of year end for the government's individual major and nonmajor funds, in the aggregate, are as follows:

	<i>Accounts</i>	<i>Special assessments</i>	<i>Interest</i>	<i>Inter- governmental</i>	<i>Totals</i>
Governmental funds:					
General	\$ 2,960	\$ -	\$ -	\$ 83,013	\$ 85,973
Major Street	-	12,831	-	14,509	27,340
Nonmajor	<u>-</u>	<u>5,365</u>	<u>-</u>	<u>4,580</u>	<u>9,945</u>
Totals	<u>\$ 2,960</u>	<u>\$ 18,196</u>	<u>\$ -</u>	<u>\$ 102,102</u>	<u>\$ 123,258</u>
Noncurrent portion	<u>\$ -</u>	<u>\$ 14,676</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,676</u>
Proprietary funds:					
Sewer	\$ 28,553	\$ 5,097	\$ 7,900	\$ -	\$ 41,550
Water	<u>56,474</u>	<u>4,334</u>	<u>15,600</u>	<u>-</u>	<u>76,408</u>
Totals	<u>\$ 85,027</u>	<u>\$ 9,431</u>	<u>\$ 23,500</u>	<u>\$ -</u>	<u>\$ 117,958</u>
Noncurrent portion	<u>\$ -</u>	<u>\$ 4,828</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,828</u>

City of Galesburg
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2008, was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Governmental activities:				
Capital assets not being depreciated - land	<u>\$ 122,280</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 122,280</u>
Capital assets being depreciated:				
Buildings and improvements	718,996	-	-	718,996
Equipment and vehicles	574,070	24,113	(34,628)	563,555
Library collection	181,264	14,990	(3,093)	193,161
Infrastructure	<u>119,387</u>	<u>-</u>	<u>-</u>	<u>119,387</u>
Subtotal	<u>1,593,717</u>	<u>39,103</u>	<u>(37,721)</u>	<u>1,595,099</u>
Less accumulated depreciation for:				
Buildings and improvements	(324,259)	(16,116)	-	(340,375)
Equipment and vehicles	(416,089)	(29,698)	34,628	(411,159)
Library collection	(81,827)	(9,451)	3,093	(88,185)
Infrastructure	<u>(16,507)</u>	<u>(7,959)</u>	<u>-</u>	<u>(24,466)</u>
Subtotal	<u>(838,682)</u>	<u>(63,224)</u>	<u>37,721</u>	<u>(864,185)</u>
Total capital assets being depreciated, net	<u>755,035</u>	<u>(24,121)</u>	<u>-</u>	<u>730,914</u>
Governmental activities capital assets, net	<u>\$ 877,315</u>	<u>\$ (24,121)</u>	<u>\$ -</u>	<u>\$ 853,194</u>

City of Galesburg
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS (Continued):

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Business-type activities:				
Capital assets not being depreciated - land	\$ 37,216	\$ -	\$ -	\$ 37,216
Construction in progress	<u>2,353,031</u>	<u>133,079</u>	<u>(2,486,110)</u>	<u>-</u>
Subtotal	<u>2,390,247</u>	<u>133,079</u>	<u>(2,486,110)</u>	<u>37,216</u>
Capital assets being depreciated:				
Buildings and equipment	250,305	-	(86,950)	163,355
Sewer system	849,237	-	-	849,237
Water system	<u>742,365</u>	<u>2,486,110</u>	<u>-</u>	<u>3,228,475</u>
Subtotal	<u>1,841,907</u>	<u>2,486,110</u>	<u>(86,950)</u>	<u>4,241,067</u>
Less accumulated depreciation for:				
Buildings and equipment	(208,002)	(2,195)	86,950	(123,247)
Sewer system	(540,681)	(16,734)	-	(557,415)
Water system	<u>(374,230)</u>	<u>(20,376)</u>	<u>-</u>	<u>(394,606)</u>
Subtotal	<u>(1,122,913)</u>	<u>(39,305)</u>	<u>86,950</u>	<u>(1,075,268)</u>
Total capital assets being depreciated, net	<u>718,994</u>	<u>2,446,805</u>	<u>-</u>	<u>3,165,799</u>
Business-type activities capital assets, net	<u>\$ 3,109,241</u>	<u>\$ 2,579,884</u>	<u>\$ (2,486,110)</u>	<u>\$ 3,203,015</u>

Depreciation expense was charged to governmental activities functions of the City as follows:

Governmental activities:	
General government	\$ 14,363
Public safety	12,322
Public works	9,255
Recreation and culture	17,740
Depreciation on capital assets of internal service funds	<u>9,544</u>
Total governmental activities	<u>\$ 63,224</u>

City of Galesburg
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - NONCURRENT LIABILITIES:

Noncurrent liabilities at June 30, 2008, are comprised of the following individual issues:

Governmental activities:

Accrued compensated absences	\$ 44,360
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Note payable - installment purchase contract (PA 99); secured by the full faith and credit of the City, payable in annual installments of \$20,462, including interest at 3.42%; final payment due October 1, 2009	38,919
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Note payable - installment purchase contract (PA 99); secured by the full faith and credit of the City, payable in annual installments of \$6,529, including interest at 5.6%; final payment due October 1, 2010	17,584
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\$125,000 1997 Michigan Transportation Fund limited obligation bonds; secured by the full faith and credit of the City, payable in annual installments ranging from \$5,000 to \$15,000, with interest payable semi-annually at rates from 4.0% to 5.3%; final payment due January 2012	<u>50,000</u>
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Total contracts and bonds	<u>106,503</u>
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Total governmental activities noncurrent liabilities	<u>\$ 150,863</u>
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Business-type activities:

\$150,000 1997 sewer and water revenue bonds; secured by sewer and water revenues, payable in annual installments of \$10,000 with a final installment of \$20,000, with interest payable semi-annually at rates from 4.0% to 5.25%; final payment due October 2011	\$ 50,000
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\$2,500,000 Drinking Water Revolving Fund bonds; payable in 20 annual installments of \$100,000 to \$150,000, principal payments; with interest due at 2.125%, payable in semi-annual installments; final payment due October 2027	<u>2,293,704</u>
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Total business-type activities noncurrent liabilities	<u>\$ 2,343,704</u>
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City of Galesburg
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - NONCURRENT LIABILITIES (Continued):

Noncurrent liability activity for the year ended June 30, 2008, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Governmental activities:					
2003 Installment purchase	\$ 57,386	\$ -	\$ (18,467)	\$ 38,919	\$ 19,116
2008 Installment purchase	-	24,113	(6,529)	17,584	5,545
1997 Transportation bonds	60,000	-	(10,000)	50,000	10,000
Total installment debt	117,386	24,113	(34,996)	106,503	34,661
Compensated absences	40,497	29,928	(26,065)	44,360	-
Total noncurrent liabilities	<u>\$ 157,883</u>	<u>\$ 54,041</u>	<u>\$ (61,061)</u>	<u>\$ 150,863</u>	<u>\$ 34,661</u>
Business-type activities:					
1997 revenue bonds	\$ 60,000	\$ -	\$ (10,000)	\$ 50,000	\$ 10,000
DWRF loan payable	2,190,444	203,260	(100,000)	2,293,704	105,000
Total noncurrent liabilities	<u>\$ 2,250,444</u>	<u>\$ 203,260</u>	<u>\$ (110,000)</u>	<u>\$ 2,343,704</u>	<u>\$ 115,000</u>

At June 30, 2008, debt service requirements, with the exception of the compensated absences, were as follows:

	<u>Governmental activities</u>		<u>Business-type activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
Year ended June 30:				
2009	\$ 34,661	\$ 4,956	\$ 115,000	\$ 48,741
2010	35,659	3,471	115,000	46,510
2011	21,183	1,936	120,000	44,279
2012	15,000	795	130,000	41,941
2013	-	-	115,000	39,604
2014-2027	-	-	1,748,704	283,448
	<u>\$ 106,503</u>	<u>\$ 11,158</u>	<u>\$ 2,343,704</u>	<u>\$ 504,523</u>

City of Galesburg
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

At June 30, 2008, the composition of interfund balances is as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Fund</u>	<u>Payable</u>
General	\$ 15,518	Major Street	\$ 1,815
		Local Street	594
		Water	12,461
		Internal Service	648
			<u>15,518</u>
Major Street	<u>1,526</u>	General	<u>1,526</u>
Public Safety	<u>2,727</u>	General	<u>2,727</u>
Debt Service	<u>8,456</u>	Sewer	6,364
		Water	2,092
			<u>8,456</u>
Sewer	<u>26,532</u>	General	<u>26,532</u>
Water	<u>494</u>	General	<u>494</u>
Total	\$ <u>55,253</u>	Total	\$ <u>55,253</u>

A long-term non-interest bearing advance from the Sewer Fund to the General Fund has a balance of \$26,000 at June 30, 2008. The advance is being repaid in annual installments as cash is considered available for repayment purposes in the General Fund. In the year ended June 30, 2008, a \$6,000 repayment was made.

The remaining interfund balances represent temporary amounts arising due to the use of pooled disbursement accounts for operations and debt service payments, and a short term advance from the Sewer Fund to the General Fund.

The interfund transfers for the year ended June 30, 2008, represent the transfer of \$22,516 unrestricted funds from the Major Street Fund to the Local Street Fund (a nonmajor fund) to finance a portion of local street costs. Available interest in the amount of \$151 was transferred from the Perpetual Care Fund to the General Fund to cover cemetery costs, and \$32 was transferred from the Museum Fund for operating expenditures.

City of Galesburg
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - RISK MANAGEMENT:

The City is exposed to various risks of loss arising from general liability, wrongful acts, professional liability, property damage and destruction, crimes, accidents, and injuries.

Risks of loss arising from possible claims are managed through the purchase of commercial insurance. General, professional, wrongful act, and automotive liabilities policy period maximums are set at \$2,000,000 to \$5,000,000. Buildings and property coverage's total approximately \$2,000,000.

For all risks of loss, there have been no significant reductions in insurance coverage from coverage provided in prior years. Also, in the past three years, settlements did not exceed insurance coverage.

NOTE 9 - JOINT VENTURE:

The Galesburg-Charleston Fire Department (the Department) is a joint venture of the City of Galesburg and the Township of Charleston. The administrative board of the Department consists of five members: one at-large member and two members from each of the participating units. The budget of the Department must be approved by each of the participating units. The costs of operations and capital expenditures of the Department are supported by contributions from the participating units in equal shares. During the year ended June 30, 2008, the City contributed \$47,090 to the Department for operations. Complete audited financial statements for the Department can be obtained from the Treasurer of the Department.

NOTE 10 - RETIREMENT PLAN:

The City provides pension benefits for all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Employees are eligible to participate after twelve months of employment, with a minimum thirty hours worked per week. The City contributes up to 5% of each qualified employee's base salary to the plan as a match. The City's contributions are fully vested after three years of employment. The City is not a trustee of the plan, nor is the City responsible for investment management of plan assets.

The City and employees made the required contributions of \$15,109.

NOTE 11 - CONSTRUCTION CODE ACT:

A summary of construction code enforcement transactions for the year ended June 30, 2008, is as follows:

Revenues	\$ 3,504
Expenses	<u>(3,487)</u>
Excess of expenditures over revenue	<u>\$ 17</u>

City of Galesburg
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 12 - RESTRICTED NET ASSETS:

Net assets as of June 30, 2008, are restricted for the following purposes:

General government - cemetery	\$ 22,359
Public works	186,837
Debt service	<u>63,157</u>
	<u>\$ 272,353</u>

REQUIRED SUPPLEMENTARY INFORMATION

City of Galesburg
BUDGETARY COMPARISON SCHEDULE - General Fund
Year ended June 30, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Property taxes	\$ 252,711	\$ 252,711	\$ 267,098	\$ 14,387
Licenses and permits	5,060	5,060	3,509	(1,551)
State grants	207,368	207,368	193,202	(14,166)
Intergovernmental	16,500	16,500	16,500	-
Charges for services	24,806	24,806	17,292	(7,514)
Fines and forfeitures	45,487	45,487	38,618	(6,869)
Interest and rentals	1,480	1,480	4,088	2,608
Other	20,566	20,566	12,155	(8,411)
Total revenues	<u>573,978</u>	<u>573,978</u>	<u>552,462</u>	<u>(21,516)</u>
EXPENDITURES				
Legislative - City Council	<u>8,950</u>	<u>8,950</u>	<u>8,666</u>	<u>284</u>
General government:				
Elections	2,648	1,618	4,288	(2,670)
Assessor	9,212	9,212	8,648	564
Clerk	11,181	11,181	9,598	1,583
Treasurer	23,263	36,181	10,758	25,423
Administration	76,637	63,564	70,317	(6,753)
City hall	18,877	19,630	23,244	(3,614)
Cemetery	12,106	12,106	9,975	2,131
DDA	1,352	1,784	80	1,704
Total general government	<u>155,276</u>	<u>155,276</u>	<u>136,908</u>	<u>18,368</u>
Public safety:				
Police	208,915	208,915	195,754	13,161
Fire	38,507	38,507	47,090	(8,583)
Building inspections	4,686	4,686	3,487	1,199
Total public safety	<u>252,108</u>	<u>252,108</u>	<u>246,331</u>	<u>5,777</u>
Public works - department of public works	<u>55,479</u>	<u>55,479</u>	<u>48,011</u>	<u>7,468</u>

City of Galesburg
BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)

Year ended June 30, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXPENDITURES (Continued)				
Community and economic development - planning and zoning	\$ 2,885	\$ 2,885	\$ 2,485	\$ 400
Culture and recreation:				
Library	81,096	81,096	78,844	2,252
Museum	3,339	3,339	2,717	622
Total culture and recreation	84,435	84,435	81,561	2,874
Capital outlay	8,068	8,068	31,695	(23,627)
Debt service - principal	7,500	7,500	6,529	971
Total expenditures	574,701	574,701	562,186	12,515
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(723)</u>	<u>(723)</u>	<u>(9,724)</u>	<u>(9,001)</u>
OTHER FINANCING SOURCES				
Loan proceeds	-	-	24,113	24,113
Transfer from Museum Fund	-	-	32	32
Transfer from Perpetual Care Fund	-	-	151	151
Total other financing sources	-	-	24,296	24,296
NET CHANGE IN FUND BALANCES	(723)	(723)	14,572	15,295
FUND BALANCES - BEGINNING	99,898	99,898	99,898	-
FUND BALANCES - ENDING	<u>\$ 99,175</u>	<u>\$ 99,175</u>	<u>\$ 114,470</u>	<u>\$ 15,295</u>

City of Galesburg

BUDGETARY COMPARISON SCHEDULE - Major Street Fund

Year ended June 30, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
State grants	\$ 90,866	\$ 90,866	\$ 88,593	\$ (2,273)
Interest	-	-	1,129	1,129
Other	-	-	935	935
Total revenues	<u>90,866</u>	<u>90,866</u>	<u>90,657</u>	<u>(209)</u>
EXPENDITURES				
Public works:				
Routine maintenance	36,592	36,592	25,549	11,043
Traffic services	4,257	4,257	2,607	1,650
Winter maintenance	8,489	8,489	13,786	(5,297)
Administration	<u>20,209</u>	<u>20,209</u>	<u>19,138</u>	<u>1,071</u>
Total expenditures	<u>69,547</u>	<u>69,547</u>	<u>61,080</u>	<u>8,467</u>
EXCESS OF REVENUES OVER EXPENDITURES	21,319	21,319	29,577	8,258
OTHER FINANCING USES				
Transfer out - Local Street Fund	<u>(24,961)</u>	<u>(24,961)</u>	<u>(22,516)</u>	<u>2,445</u>
NET CHANGE IN FUND BALANCES	(3,642)	(3,642)	7,061	10,703
FUND BALANCES - BEGINNING	<u>128,736</u>	<u>128,736</u>	<u>128,736</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 125,094</u>	<u>\$ 125,094</u>	<u>\$ 135,797</u>	<u>\$ 10,703</u>

SUPPLEMENTARY INFORMATION

City of Galesburg
COMBINING BALANCE SHEET - nonmajor governmental funds
June 30, 2008

	<i>Special revenue funds</i>				
	<i>Local Street</i>	<i>Public Safety</i>	<i>Museum</i>	<i>Library</i>	<i>Perpetual Care</i>
ASSETS					
Cash	\$ 47,271	\$ 44,658	\$ 671	\$ 44,707	\$ 22,359
Accounts receivable	4,580	-	-	-	-
Due from other funds	-	2,727	-	-	-
Total assets	<u>\$ 51,851</u>	<u>\$ 47,385</u>	<u>\$ 671</u>	<u>\$ 44,707</u>	<u>\$ 22,359</u>
LIABILITIES AND FUND BALANCES					
Accounts payable	\$ 217	\$ -	\$ -	\$ 478	\$ -
Due to other funds	594	-	-	-	-
Deferred revenue	-	-	-	-	-
Total liabilities	811	-	-	478	-
Fund balances, unreserved	<u>51,040</u>	<u>47,385</u>	<u>671</u>	<u>44,229</u>	<u>22,359</u>
Total liabilities and fund balances	<u>\$ 51,851</u>	<u>\$ 47,385</u>	<u>\$ 671</u>	<u>\$ 44,707</u>	<u>\$ 22,359</u>

<i>Debt Service</i>	<i>Total nonmajor governmental funds</i>
\$ 54,701	\$ 214,367
5,365	9,945
<u>8,456</u>	<u>11,183</u>
 \$ 68,522	 \$ 235,495
<u>68,522</u>	<u>235,495</u>

\$ -	\$ 695
-	594
<u>5,365</u>	<u>5,365</u>
 5,365	 6,654
<u>63,157</u>	<u>228,841</u>
 \$ 68,522	 \$ 235,495
<u>68,522</u>	<u>235,495</u>

City of Galesburg

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - nonmajor governmental funds**

Year ended June 30, 2008

	<i>Special revenue funds</i>				
	<i>Local Street</i>	<i>Public Safety</i>	<i>Museum</i>	<i>Library</i>	<i>Perpetual Care</i>
REVENUES					
Property taxes	\$ -	\$ 27,644	\$ -	\$ -	\$ -
State grants	27,948	-	-	-	-
Interest	-	457	-	1,536	149
Other	-	-	-	4,625	-
Total revenues	27,948	28,101	-	6,161	149
EXPENDITURES					
Public works	46,428	-	-	-	-
Culture and recreation	-	-	-	2,554	-
Capital outlay	-	-	-	-	-
Debt service:					
Principal	-	18,467	-	-	-
Interest and fiscal charges	-	1,993	-	-	-
Total expenditures	46,428	20,460	-	2,554	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(18,480)	7,641	-	3,607	149
OTHER FINANCING SOURCES (USES)					
Transfer in	22,516	-	-	-	-
Transfer out	-	-	(32)	-	(151)
Total other financing sources (uses)	22,516	-	(32)	-	(151)
NET CHANGE IN FUND BALANCES	4,036	7,641	(32)	3,607	(2)
FUND BALANCES - BEGINNING	47,004	39,744	703	40,622	22,361
FUND BALANCES - ENDING	\$ 51,040	\$ 47,385	\$ 671	\$ 44,229	\$ 22,359

<i>Debt Service</i>	<i>Total nonmajor governmental funds</i>
	\$ 27,644
	27,948
1,174	3,316
<u>2,732</u>	<u>7,357</u>
 3,906	 66,265
 -	 46,428
-	2,554
-	-
10,000	28,467
<u>1,975</u>	<u>3,968</u>
 11,975	 81,417
 <u>(8,069)</u>	 <u>(15,152)</u>
 -	 22,516
-	<u>(183)</u>
 -	 22,333
(8,069)	7,181
<u>71,226</u>	<u>221,660</u>
<u>\$ 63,157</u>	<u>\$ 228,841</u>

November 25, 2008

To the Members of the
City Council
City of Galesburg

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Galesburg for the year ended June 30, 2008, and have issued our report thereon dated November 25, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 2, 2008, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Galesburg are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the City of Galesburg during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was capital asset depreciation.

Management's estimate of the capital asset depreciation is based on the estimated useful lives of the City's capital assets. We evaluated the key factors and assumptions used to develop the capital asset depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. We did not propose any audit adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter associated with the audits for the year ended June 30, 2008.

Other Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Galesburg's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Communication Regarding Internal Control

In planning and performing our audit of the financial statements of the City of Galesburg as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Galesburg's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls and, accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses.

- Cash balances were not reconciled to their respective general ledger accounts in a timely manner.
- The City has not implemented a system of controls to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to achieve the objectives of recording revenue and expense accruals, the capitalization and depreciation of capital assets, and the presentation of financial statement disclosures. The City has determined that the additional benefits derived from implementing such a system would not outweigh the costs incurred to do so. This is a recurring comment.

This communication is intended solely for the information and use of the Members of the City Council of the City of Galesburg and is not intended to be and should not be used by anyone other than this specified party.

Siegfried Crandall P.C.